

# UNIVERSITY OF OREGON INDEX OF ECONOMIC INDICATORS™

oregon  
economic  
forum

*A project of the College of Arts and Sciences and the Department of Economics*

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## Analysis

The University of Oregon Index of Economic Indicators™ fell in April following a revised increase in March. The UO Index stood at a level of 106.3 (1996=100) in April, a 0.4 percent drop from March's reading. Four of the eight indicators that comprise the index—Oregon initial unemployment claims, *Oregonian* help-wanted ads, Oregon non-farm payrolls, and real new orders for manufactured goods—improved in April. Oregon residential building permits, U.S. consumer confidence, and the interest rate spread all fell, while the Oregon weight distance tax collected held steady.

Labor market conditions remained solid, although the pace of hiring in Oregon cooled in April on the back of rapid employment gains in the first quarter. Nonfarm payrolls increased by just 400 jobs in April, compared to a revised gain of 7,200 the previous month. In the first four months of 2005, monthly payrolls rose an average of 3.7 percent compared to 2004. These are the highest growth rates since 1997. Given the strong pace of hiring, year-to-date, and im-

provements in other more forward-looking indicators of labor market health, Oregon initial jobless claims and *Oregonian* help-wanted ads, the hiring slowdown in April does not likely signal an end to the strong labor market.

New orders for manufactured goods rose in April, ending a two-month decline, while the March figure was revised higher. These data suggest that the reported softness in manufacturing during the first quarter was not as severe as initially estimated. In contrast, Oregon residential building permits pulled back from the March spike, but remain above the February level. U.S. consumer confidence remains weak, declining for the fourth consecutive month as high fuel prices drain consumers' pocketbooks.

Due to month-to-month volatility of components, a more reliable indicator of economic health is obtained from six-month changes in the index. On that basis, the UO Index stands 1.3 percent (annualized) higher. The six-month diffusion index, a measure of the proportion of components that are rising, held at 62.5 (in other words, more than half of the components improved). As a general rule, a decline in the index of greater than 2 percent over six months, coupled with a decline in more than half of its components, signals that a recession is likely imminent.

The behavior of the UO Index remains consistent with positive near-term growth prospects for Oregon.

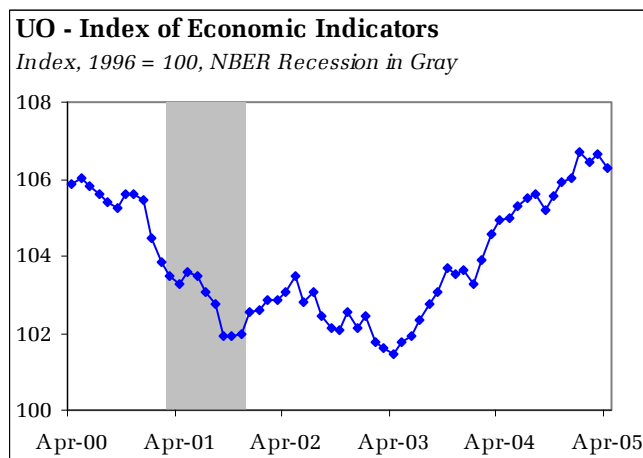


Table 1: Summary Measures

	2004		2005			
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
University of Oregon Index of Economic Indicators™, 1996=100	105.9	106.0	106.7	106.5	106.7	106.3
Percentage Change	0.3	0.1	0.6	-0.2	0.2	-0.4
Diffusion Index	68.8	68.8	62.5	25.0	43.8	50.0
6-Month Percentage Change, Annualized	1.8	1.4	2.3	1.6	2.8	1.3
6-Month Diffusion Index	75.0	62.5	62.5	50.0	56.3	62.5



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## Methodology and Notes

The methodology employed in creating the University of Oregon Index of Economic Indicators is identical to that used by The Conference Board, an independent, not-for-profit research organization, in the computation of the U.S. Leading Index. For information, see [www.globalindicators.org](http://www.globalindicators.org).

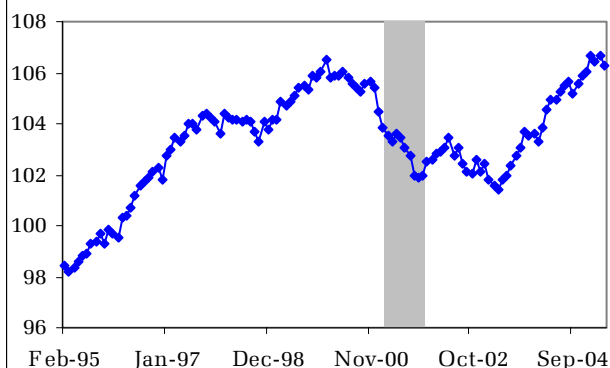
The UO Index is constructed to have the properties of a leading indicator. As a general rule, a decline in the index of greater than 2 percent over six months, coupled with a decline in more than half of its components, signals that a recession is likely imminent. The 2 percent rule—which has since changed to 3.5 percent due to index revisions—was originally employed by The Conference Board for the U.S. Leading Indicators, and it appears appropriate for the UO Index.

Using the rule, the index signaled an impending recession in January 2001; the National Bureau of Economic Research (NBER) dates the national recession from March to November 2001. The index did signal the so-called “jobless recovery” that followed the 2001 recession, but did not falsely predict a double-dip recession. No other recessions were signaled during the period for which data are available (beginning February 1995).

The general rule, however, should be used judiciously. The available data encompass only one recession, a very small sample from which to draw generalities. Moreover, no single variable is capable of decisively determining the state of the business cycle. Consequently, the UO Index of Economic Indicators is best considered as another tool in assessing the economy.

Sources: The Conference Board, Oregon Department of Transportation, Oregon Employment Department, Federal Reserve Bank of St. Louis, Bureau of Labor Statistics, Census Bureau, and the author's calculations.

**UO - Index of Economic Indicators, Historical**  
Index, 1996 = 100, NBER Recession in Gray



**UO - Index of Economic Indicators, % Change**  
6-month Percentage Change, Annualized  
Red: 6-Month Diffusion Index Declines More Than 50%  
NBER Recession in Gray

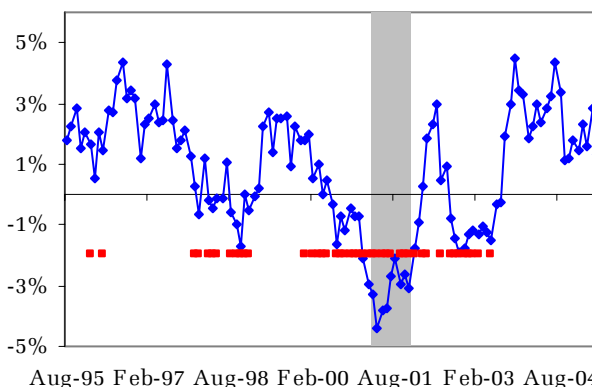


Table 2: Index Components

	2004		2005			
	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.
Oregon Initial Unemployment Claims, SA*	6,345	6,129	5,637	6,126	6,544	6,506
Oregon Residential Building Permits, SA	2,352	2,467	2,457	2,455	3,067	2,586
The Oregonian Help-Wanted Ads, SA	20,543	20,772	24,866	22,757	23,109	23,401
Oregon Weight Distance Tax, \$ Thousands, SA	24,558	18,996	20,892	18,705	18,230	18,229
Oregon Total Nonfarm Payrolls, Thousands, SA	1,614.0	1,616.2	1,621.3	1,632.9	1,640.1	1,640.5
Univ. of Michigan U.S. Consumer Confidence	92.8	97.1	95.5	94.1	92.6	87.7
Real Manufacturer's New Orders for Nondefense, Nonaircraft Capital Goods, \$ Millions, SA	44,262	45,634	47,350	46,437	45,587	46,237
Interest Rate Spread, 10-Year Treasury Bonds Less Federal Funds Rate	2.26	2.07	1.67	1.67	1.87	1.55

\* SA—seasonally adjusted

The goal of the University of Oregon Index of Economic Indicators™ is to create a summary measure of various data that pertain to the Oregon economy.